Sacramento Housing & Redevelopment Agency

REPORT TO THE REDEVELOPMENT AGENCY of the City of Sacramento

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Staff Report
June 13, 2006

Honorable Chair and Members of the Board:

Subject: 926 J Owner Participation Agreement and Related Documents

Location/Council District: 926 J Street, Council District 1

Recommendation:

Adopt Redevelopment Agency of the City of Sacramento (Agency) Resolution that:

1. Authorizes the approval of an Owner Participation Agreement and related legal documents totaling $9.85 million with Rubicon Partners, LLC (Owner) for the renovation of the historic 926 J building for a boutique hotel;

2. Allocates $9.85 million from the Merged Downtown 2005 Tax Allocation Bond Fund to the 926 J Building Renovation Project; and

3. Pledges project-generated tax increment back to the project for a period of 15 years.

Contact: Traci Michel, Senior Project Manager, 808-8645
Leslie Fritzsche, Downtown Development Manager, 808-5450
Presenters: Traci Michel, Senior Project Manager
Department: Economic Development
Division: Downtown Development
Organization No.: 4451

Summary:

The building located at 926 J Street was completed in 1925 and is currently one of the most architecturally significant and visible buildings in downtown Sacramento (Attachment 1). The property owners' representative, Rubicon Partners, originally planned to renovate and re-tenant the building, but had a unique opportunity to consider

a boutique hotel use. This change in use would stimulate additional redevelopment activities in downtown Sacramento and would provide significant long-term returns to the City, but requires financial assistance to implement.

On April 4, 2006, the Agency approved the business terms for the project, and directed staff to return to the Agency with the necessary legal documents for execution.

Committee/Commission Action:

The Downtown Sacramento Partnership Board and Development Task Force reviewed the Proposed Project and voted to support it with the following provisions:

- The total hotel cash subsidy is $9.85 million or less and tied to the hard costs of development. Subsidy would be reduced if hard costs are less than projected;
- Public investment is structured as loan with a forgivable portion amount to be determined by Agency staff, but consistent with other recent redevelopment projects;
- Public support of the restaurant is contingent upon the Agency's approval of the actual operator – with the expectation that it be equivalent to the caliber of tenants in other Joie de Vivre properties.

Additionally, Rubicon Partners held a community meeting on March 14th to provide information on the project and to answer questions. Approximately 50 community members were present.

Background Information:

The building located at 926 J Street was completed in 1925 for California Western Life Insurance Company and was the first high-rise office building at 14 stories in downtown Sacramento. Today, it is still one of the most significant and visible buildings in downtown Sacramento. The building's architect was George Selland, California's first State Architect and the father of many historic structures, including San Quentin Prison. The building and its location are considered key to downtown redevelopment for several reasons:

- The historic character and significant architecture of the building make it a Sacramento landmark;
- The building presents a visual anchor to Caesar Chavez Park across J Street and complements other high-rise structures surrounding the park;
- The block between 9th and 10th streets contains a number of blighted and underutilized buildings;
- J Street is one of the main arterials in downtown Sacramento;

- The 10th/J intersection offers significant visibility and has high vehicular and pedestrian volumes;
- 10th Street is a critical corridor, connecting City Hall with the State Capitol and intersecting with the Agency's 10th/K redevelopment project; and
- Public parking facilities to support the site are available nearby.

Project Proposal

The boutique hotel project (Proposed Project) consists of renovating the existing 14-story office building to accommodate the following:

- A 197-room boutique hotel to be operated by Joie de Vivre Hospitality (JDV);
- Approximately 11,000 square feet of meeting space, 3,500 of which would be located on the outdoor patio on the 7th floor;
- A signature ground-floor restaurant; and
- A fitness center for hotel guests.

Based in San Francisco, JDV is the largest boutique hotel company in Northern California with a total portfolio of 28 hotels, including 18 in San Francisco. JDV has proposed creating a new hotel with a sense of history and place in Sacramento. The Proposed Project is to be of high-quality interior décor, designed along the lines of other new JDV hotels such as the Hotel Adagio and the Hotel Vitale in San Francisco, and the Hotel Montgomery in San Jose. The Hotel Rex, also located in San Francisco, and another JDV property have been indicated as a design model for the Proposed Project.

Previous Agency Action

On April 4, 2006, the Agency approved OPA business terms for the project and directed staff to return with the necessary legal documents for execution.

Staff has completed negotiations with Rubicon Partners to refine project costs and the amount of public investment needed. Currently, the total project cost is estimated at $55.5 million. Of that amount, approximately **$9.85 million** in up-front public investment is needed to make the project financially feasible. This public investment would be used in the following ways:

- A loan of **$5.1 million** for the hotel, which will be repaid with zero percent interest, utilizing one-half percent of the gross hotel revenues once the hotel generates $17 million of gross revenues, and the project achieves a net operating income of 26 percent;

- A loan of **$3.3 million** for the hotel, which would be forgiven upon completion of key historic preservation and structural improvements needed for the building, including:
  - Seismic retrofit of the historic shell and preservation of adjacent historic structures during construction;
  - Historic sash window and tile façade replacement/restoration;
  - Exterior lighting to enhance historic features of building; and
  - Historic lobby/staircase preservation/restoration;

- A loan of **$850,000** for a signature restaurant, at zero percent interest for a ten-year period, repaid by the Agency receiving 55 percent of the percentage rents generated from the project; and

- Up to **$600,000** reserved for improvements along 10th Street to enhance ground floor restaurant use and access.

Additionally, the following assistance is needed to make the project financially feasible:

- Access to 175 City public parking spaces, paid by Rubicon Partners at a premium rate (this is a separate, but concurrent effort managed by City staff);

- Pledging project-generated tax increment back to the project (net of housing set-aside and pass-through required amount) for a period of either 15 years or after the cumulative total of rebate payments equals $1.68 million in net present value terms with a discount rate of 8.5%, whichever occurs first. The nominal total of the rebate payments is estimated at $3.1million; and

- Providing Sacramento County Regional Sanitation District connection fee credits (estimated to be 78) to the project.

Copies of the OPA and related legal agreements are on file with both the City and Agency Clerks.

Project Benefits

The Proposed Project will generate a number of benefits to the Agency and to the City, which due to the readiness of the building and hotel operator could begin as early as December 2007 and include:

- Approximately $1 million in additional TOT tax annually;

- An estimated $330,000 in annual sales tax;

- Approximately $125,000 in additional property tax increment (the 30% set-aside for affordable housing); and

- Over 100 new jobs for the hotel operation and an estimated 30 new jobs for the ground floor restaurant.

In addition to the direct benefits, the project is anticipated to stimulate additional redevelopment along the J Street corridor as well as support the Agency's efforts to bring new retailers and restaurants along K Street. It is envisioned that the development of a boutique hotel at this location would serve to not only turn around a section of J Street that has long suffered from disinvestment, but benefit the City as a whole in its efforts to become a visitor and tourist destination. The project will revitalize and preserve a deteriorating historic building on a blighted corner.

Financial Considerations:

Staff is requesting allocation of $9.85 million from the Merged Downtown 2005 Tax Allocation Bond Funds to the 926 J Building Renovation Project for implementation of the project. Additionally, staff is requesting pledging project-generated tax increment back to the project (net of housing set-aside and pass-through required amount) for a period of either 15 years or after the cumulative total of rebate payments equals $1.68 million in net present value terms with a discount rate of 8.5%, whichever occurs first. The nominal total of the rebate payments is estimated at $3.1 million.

Environmental Considerations:

The project is exempt from environmental review per CEQA Guidelines Section 15332 as an infill project based on the following: 1) The site is not more than five acres and is substantially surrounded by urban uses; 2) The project is consistent with the General Plan, community plan and zoning; 3) The project can be served by all required utilities and public services; and 4) Based on an initial study (i) the site has no value as habitat for threatened or endangered species, and (ii) the project would not result in any significant impacts to traffic, noise, air quality, or water quality.

The project involves renovation of a historic building, therefore the OPA requires compliance with the Secretary of Interior Standards. All plans will be submitted to the City's Historic Preservation Officer for review to ensure compliance.

Policy Considerations:

Approval of the business terms and subsequent OPA will result in a proposed project consistent with the Amended Merged Downtown Redevelopment Plan and 2005-2009 Merged Downtown Implementation Plan, and the 2005 Downtown Sacramento Redevelopment Strategy, including:

- The preservation and/or restoration of historically or architecturally significant structures; and

- The establishment and implementation of performance criteria to assure high quality site design standards and environmental quality and other design elements, which provide unity and integrity to the entire Merged Downtown Project Area.

M/WBE Considerations:

Minority and Women's Business Enterprise requirements will be applied to all activities to the extent required by federal funding.

Respectfully submitted: _____
Leslie Fritzsche
Downtown Development Manager
on behalf of the Redevelopment Agency
of the City of Sacramento

Recommendation Approved:

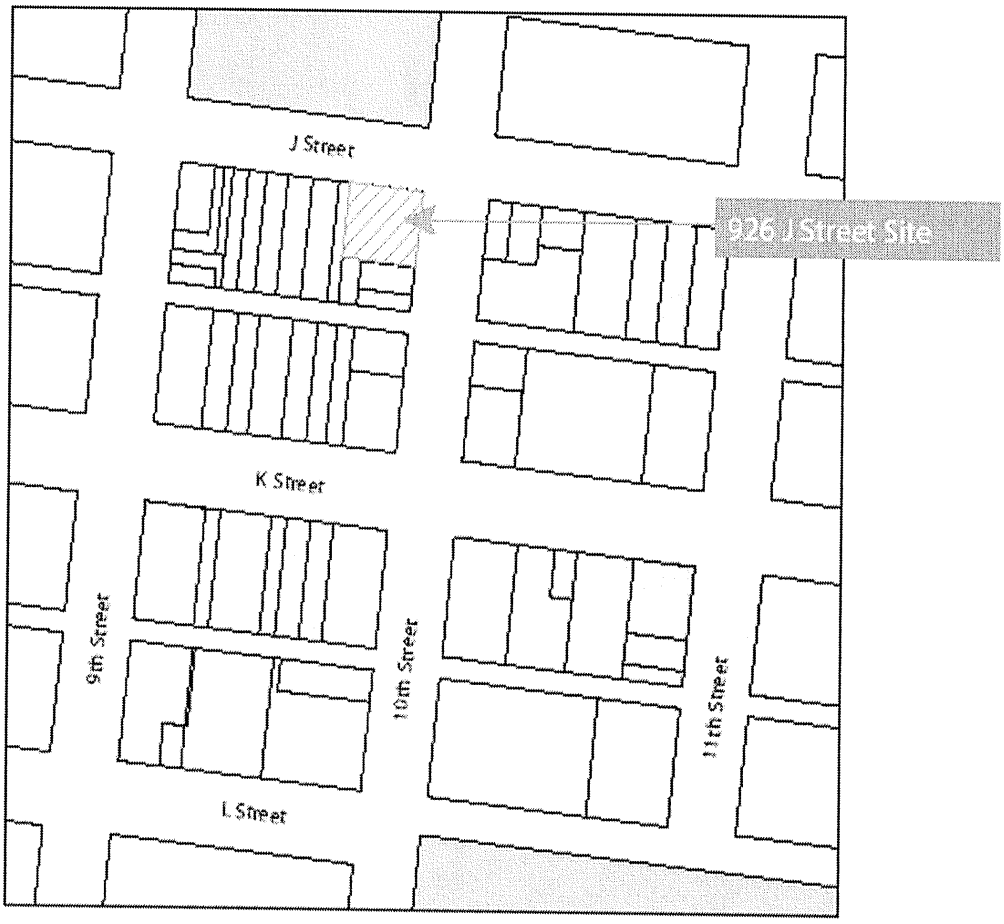
_____
RAY KERRIDGE
City Manager

Table of Contents:

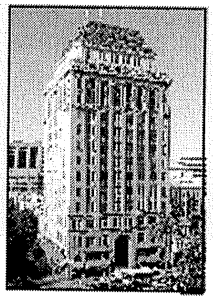
Pg	1-6	Report
Pg	7	Attachment 1: Location Map – 926 J Street
Pg	8-9	Resolution

ATTACHMENT 1

926 J Street - Project Site Location Map



Site Profile



926 J Street

RESOLUTION NO.

Adopted by the Redevelopment Agency of the City of Sacramento

926 J OWNER PARTICIPATION AGREEMENT AND RELATED LEGAL DOCUMENTS

BACKGROUND

A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Sacramento Redevelopment Project Area Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Sacramento Redevelopment Project Area ("Project Area");

B. The Agency and Rubicon Partners, LLC. desire to enter into an Owner Participation Agreement ("OPA") and related legal documents, which would provide Agency funds to assist in the renovation of the historic 926 J building for a boutique hotel and significant, ground floor restaurant; and

C. On April 4, 2006, the Agency approved OPA business terms with Rubicon Partners, LLC. and directed staff to return to the Agency with the completed OPA and related legal documents for approval.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE REDEVELOPMENT AGENCY OF THE CITY OF SACRAMENTO RESOLVES AS FOLLOWS:

Section 1. After due consideration of the facts presented, the findings, including but not limited to the environmental findings regarding this action, as stated in the staff report that accompanies this Resolution, are approved.

Section 2. The OPA and related legal agreements with Rubicon Partners, LLC., in substantially the same form as that which is on file with the City and Agency Clerks, is approved and the Executive Director or her designee is authorized to execute the OPA and related legal documents to take such actions, execute such instruments, and amend the budget as may be necessary to effectuate and implement this resolution and the OPA.

Section 3. The Executive Director or her designee is authorized and directed to transfer $9.85 million from the Merged Downtown 2005 Tax Allocation Bond Funds to the 926 J Boutique Hotel Project.

Section 4. The Executive Director or her designee is authorized to pledge project-generated tax increment back to the project for a period of either 15 years or after the cumulative total of rebate payments equals $1.68 million in net present value terms with a discount rate of 8.5%, whichever occurs first. The nominal total of the rebate payments is estimated at $3.1 million.